

On Cloud 8x Sales: The “Work from Home” Beneficiaries

Published April 2, 2020

Jeremy Schwartz, CFA

Global Chief Investment Officer

Kara Marciscano, CFA

Associate, Research

The coronavirus is forcing us to reevaluate tools that enable remote working.

Companies that often help the workforce to operate virtually “in the cloud” are top of mind. Zoom video conferencing is a standout. But Zoom is not alone.¹

Cloud-based businesses help us communicate (Slack), sign legal documents at scale and remotely (DocuSign), transfer and save files (Dropbox) and make payments online (PayPal). ²

This trend toward operating in the cloud is leading to fast relative growth rates and outperformance for the cloud technology industry, even during this volatile year.

We are facing unprecedented business disruption. As companies look to get back to work, we believe cost-saving efficiencies like the adoption of cloud-based software will accelerate.

The [WisdomTree Cloud Computing Fund \(WCLD\)](#), which tracks the BVP Nasdaq Emerging Cloud Index before fees and expenses, provides exposure to companies that are aiding business continuity during this period of social distancing.

Steep valuations are a commonly cited concern for investors weighing an investment in WCLD or the cloud computing industry at large. They fear multiples aren’t justified by fundamentals.

WCLD is currently valued at 7.9x trailing 12-month sales, while the [S&P 500](#) and [S&P 500 Growth](#) Indexes are valued at 1.8x and 3.3x, respectively.³

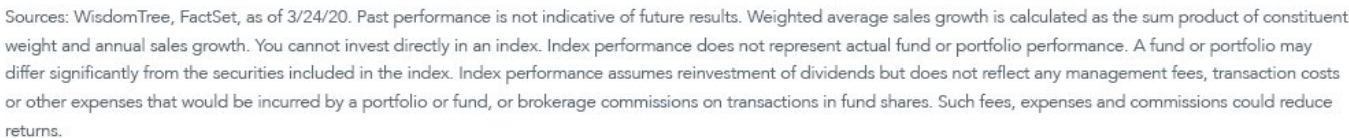
When investors see that statistic in isolation, without considering that fundamental growth plays a significant role in driving valuations, of course they become hesitant.

But if we examine year-over-year sales growth rates relative to current price-to-sales valuations for WCLD alongside the S&P 500 and S&P 500 Growth Indexes and their underlying industry groups, WCLD is in a league of its own in terms of **both** valuation and sales growth.

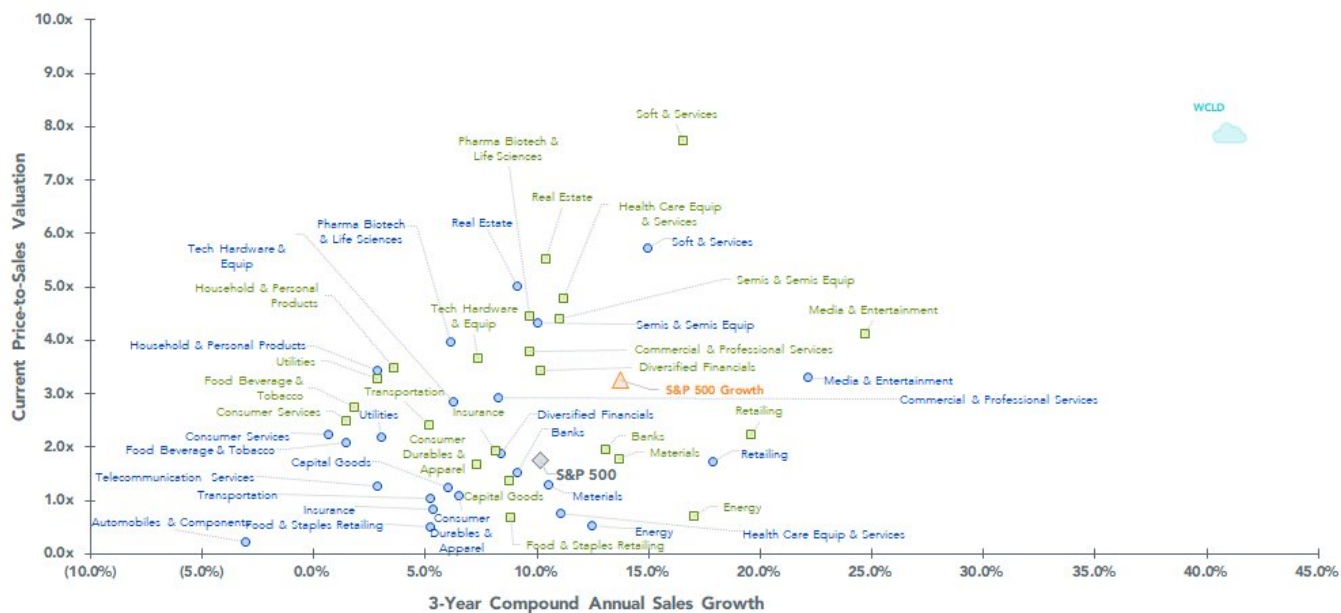
What would investors think if they were presented with the following statistic in isolation?

The weighted average sales growth for the constituents in WCLD was 38.1% over the trailing 12 months. Sales growth for the S&P 500 Index and its growth counterpart paled in comparison—at 8.3% and

Software & Services companies in the S&P 500 Growth Index are currently valued at 7.7x trailing 12-month sales, consistent with WCLD but with less than half the sales growth to support the valuation.⁵



The one- and three-year charts are not much different. You'll find WCLD in the top right corner with a 41.0% compound annual growth rate in sales.⁶



Sources: WisdomTree, FactSet, as of 3/24/20. Past performance is not indicative of future results. You cannot invest directly in an index. Approximately 10% of WCLD's weight is currently held in constituents that do not have publicly available financial filings as of 3/24/17 because they were not yet publicly traded. Weighted average sales growth is calculated as the sum product of constituent weight and annual sales growth.

Understanding WCLD

The WisdomTree Cloud Computing Fund (WCLD) leverages the expertise of Bessemer Venture Partners (BVP), a leading early-stage investor in cloud-based businesses with more than a decade of investment success in the cloud computing industry.

WCLD seeks to track the yield and performance, before fees and expenses, of the BVP Nasdaq Emerging Cloud Index (EMCLOUD). BVP sets the investment parameters for selecting eligible cloud company constituents within EMCLOUD's investment methodology.

A key point of differentiation in EMCLOUD's stock selection is the requirement that companies derive most of their revenue through the cloud-software subscription model. That's why EMCLOUD and WCLD do not currently hold companies like Amazon or Google, which generate sales from many business segments. Many investors already have sizeable exposure to these tech giants through their broader U.S. equity allocations. Importantly, WCLD only holds five names in common with the S&P 500 Index (Adobe, PayPal, ServiceNow, Paycom Software and Salesforce), which together account for about 10% of WCLD's total weight.⁷

WCLD is designed to provide exposure to emerging companies with rapid growth characteristics. The companies captured in WCLD range from large-cap names held in broad benchmark indexes (like Adobe) to smaller and lesser-known names with impressive revenue growth (like Cloudflare).⁸

We believe broader growth-oriented strategies provide a challenging mix of slower-growing, mature businesses that dilute or fail to capture the growth of emerging and potentially disruptive businesses.

We believe WCLD represents a compelling alternative to these broader strategies by aiming to provide exposure to the fastest-growing cloud software companies.

1As of 3/24/20, WCLD held 3.3% of its weight in Zoom Video Communications, Inc.

2As of 3/24/20, WCLD held 2.1%, 2.3%, 2.1% and 2.0% of its weight in Slack, DocuSign, Dropbox and PayPal, respectively.

3Sources: WisdomTree, FactSet, as of 3/24/20.

4Sources: WisdomTree, FactSet, as of 3/24/20.

5Sources: WisdomTree, FactSet, as of 3/24/20.

6Sources: WisdomTree, FactSet, as of 3/24/20.

7As of 3/24/20, WCLD held 2.0%, 2.0%, 2.0%, 1.6% and 1.9% of its weight in Adobe, PayPal, ServiceNow, Paycom Software and Salesforce, respectively.

8As of 3/24/20, WCLD held 2.0% and 2.7% of its weight in Adobe and Cloudflare, respectively.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund invests in cloud computing companies, which are heavily dependent on the Internet and utilizing a distributed network of servers over the Internet. Cloud computing companies may have limited product lines, markets, financial resources or personnel and are subject to the risks of changes in business cycles, world economic growth, technological progress and government regulation. These companies typically face intense competition and potentially rapid product obsolescence. Additionally, many cloud computing companies store sensitive consumer information and could be the target of cybersecurity attacks and other types of theft, which could have a negative impact on these companies and the Fund. Securities of cloud computing companies tend to be more volatile than securities of companies that rely less heavily on technology and, specifically, on the Internet. Cloud computing companies can typically engage in significant amounts of spending on research and development, and rapid changes to the field could have a material adverse effect on a company's operating results. The composition of the Index is heavily dependent on quantitative and qualitative information and data from one or more third parties, and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

THE INFORMATION SET FORTH IN THE BVP NASDAQ EMERGING CLOUD INDEX IS NOT INTENDED TO BE, AND SHALL NOT BE REGARDED OR CONSTRUED AS, A RECOMMENDATION FOR A TRANSACTION OR INVESTMENT OR FINANCIAL, TAX, INVESTMENT OR OTHER ADVICE OF ANY KIND BY BESSEMER VENTURE PARTNERS. BESSEMER VENTURE PARTNERS DOES NOT PROVIDE INVESTMENT ADVICE TO WISDOMTREE OR THE FUND, IS NOT AN INVESTMENT ADVISOR TO THE FUND AND IS NOT RESPONSIBLE FOR THE PERFORMANCE OF THE FUND. THE FUND IS NOT ISSUED, SPONSORED, ENDORSED OR PROMOTED BY BESSEMER VENTURE PARTNERS. BESSEMER VENTURE PARTNERS MAKES NO WARRANTY OR REPRESENTATION REGARDING THE QUALITY, ACCURACY OR COMPLETENESS OF THE BVP NASDAQ EMERGING CLOUD INDEX, INDEX VALUES OR ANY INDEX-RELATED DATA INCLUDED HEREIN, PROVIDED HERewith OR DERIVED THEREFROM AND ASSUMES NO LIABILITY IN CONNECTION WITH ITS USE. BESSEMER VENTURE PARTNERS AND/OR POOLED INVESTMENT VEHICLES WHICH IT MANAGES, AND INDIVIDUALS AND ENTITIES AFFILIATED WITH SUCH VEHICLES, MAY PURCHASE, SELL OR HOLD SECURITIES OF ISSUERS THAT ARE CONSTITUENTS OF THE BVP NASDAQ EMERGING CLOUD INDEX FROM TIME TO TIME AND AT ANY TIME, INCLUDING IN ADVANCE OF OR FOLLOWING AN ISSUER BEING ADDED TO OR REMOVED FROM THE BVP NASDAQ EMERGING CLOUD INDEX. Nasdaq® and the BVP Nasdaq Emerging Cloud Index are registered trademarks and service marks of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and are licensed for use by WisdomTree. The Fund has not been passed on by the Corporations as to its legality or suitability. The Fund is not issued, endorsed, sold or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.